

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 IO-14 ISO-00 AGRE-00 AID-05 CIAE-00
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OES-07 DOE-11 SOE-02 ARA-14 MMO-04 INT-05 DOTE-00
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TO SECSTATE WASHDC 5094
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AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION GENEVA
AMCONSUL BORDEAUX
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USMTN; PARIS PASS OECD
USEEC

PASS TREASURY, FEDERAL RESERVE, COMMERCE, LABOR

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SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 01598

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SUMMARY

WITH THE FORTHCOMING FRENCH GENERAL ELECTIONS COMING
CLOSER, PRIVATE INITIATIVE AND INVESTMENT IS COMING
TO A STANDSTILL. INDUSTRIAL PRODUCTION IN DECEMBER
DROPPED AGAIN, SO THAT A CERTAIN REVIVAL OF ACTIVITY
IN JANUARY IS EXPECTED TO ENABLE PRODUCTION TO MEET

CURRENT MODERATE DEMAND. UNDOUBTEDLY, THE SLOWDOWN HELPED TO KEEP PRICE INDEXES DOWN AND LIMIT THE RISE OF IMPORTS (SUCH AS MACHINE TOOLS), WHICH CONTRIBUTED TO THE IMPROVEMENT IN THE FOREIGN TRADE BALANCE. LACK OF CONFIDENCE IN THE FUTURE RESULTED IN ANOTHER SHARP DROP OF SHARES ON THE PARIS STOCK EXCHANGE WHILE PARIS GOLD PRICES INCREASED MORE THAN ON INTERNATIONAL MARKETS. LONG-TERM BORROWING ABROAD BY PUBLIC SECTOR ENTITIES HAS ACCELERATED WHILE PUBLIC DOMESTIC BOND ISSUES SEEM TO HAVE EXPERIENCED SOME DIFFICULTY OF PLACEMENT WITH TIGHTENING INTEREST RATES AND A HEAVY VOLUME OF NEW ISSUES IN RECENT MONTHS.

END SUMMARY

1. GENERAL UNEASINESS PREVAILS AT THE PARIS BOURSE. DURING THE MONTH OF JANUARY STOCKS DROPPED BY AN AVERAGE OF 6 PERCENT FROM THE ALREADY LOW END-OF-THE-YEAR LEVEL. DURING THE SAME PERIOD THE PRICE OF GOLD FLUCTUATED ON A RISING TREND, REFLECTING WORLD-WIDE GOLD PRICES. AFTER HAVING REACHED A HIGH OF F 28,895 (\$190.61 PER OUNCE) ON JANUARY 24, THE PRICE OF GOLD KILO-INGOTS CURRENTLY IS F 28,295 (\$185.86 PER OUNCE). THE POPULAR NAPOLEON GOLD COIN, PREFERRED BY MANY SMALL INVESTORS, REACHED F 300 ON JANUARY 24 AND CURRENTLY IS F 290. WHILE PART OF THIS TREND

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UNDOUBTEDLY REFLECTS INTERNATIONAL DEVELOPMENTS, COMMENTATORS CLOSE TO THE BOURSE ASCRIBE IT PRINCIPALLY TO THE EFFECT OF THE PRE-ELECTION PERIOD.

THE PREMIUM FOR THE SO-CALLED "VERSEMENT SUISSE", ANOTHER INDICATOR OF CONFIDENCE IN THE FRANC, NOW AMOUNTS TO ABOUT THREE PERCENT. THIS, HOWEVER, SEEMS TO BE PARTLY DUE TO THE KIDNAPPING OF THE BARON D'EMPAIN, SINCE THE BORDERS ARE BEING MORE CAREFULLY WATCHED. IN GENERAL, CHANGES IN BOTH STOCK PRICES AND GOLD HAVE OCCURRED IN RELATIVELY LOW VOLUME MARKETS. AS SUCH, RECENT TRANSACTIONS IN THE GOLD MARKET AND THE SUISSE VERSEMENT MARKET DO NOT, AS YET, INDICATE A STRONG MOVEMENT; BUT, ALONG WITH RECENT CHANGES IN SHORT-TERM CAPITAL FLOWS (SEE PARIS 02793), THEY SUGGEST THE POSSIBILITY OF A WEAKER FRANC IN THE WEEKS BEFORE THE MARCH ELECTIONS.

2. FURTHER DECELERATION OF CONSUMER PRICES IN DECEMBER

THE FRENCH CONSUMER PRICE INDEX ROSE BY ONLY 0.3 PERCENT IN DECEMBER (9 PERCENT OVER DECEMBER 1976). FOOD PRICES AGAIN REMAINED PRACTICALLY STABLE, ON AVERAGE (#0.1), AS WORLD PRICES FOR EDIBLE OILS DECLINED FURTHER AND INTERVENTION STOCKS OF BUTTER RESULTED IN A 5.1 PERCENT DROP IN THE INDEX OF THIS SUB-GROUP.

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MORE ENCOURAGING IS THE DECELERATION IN THE PRICES OF MANUFACTURES, WHICH ROSE BY ONLY 0.4 PERCENT, AGAINST 0.7 PERCENT IN NOVEMBER; AND SERVICES ROSE BY ONLY 0.2 PERCENT. HOWEVER, INCREASES OF A NUMBER OF INDUSTRIAL COMMODITIES, NORMALLY SPREAD

THROUGHOUT THE YEAR, ARE SAID TO BE DELAYED UNTIL
AFTER THE ELECTIONS.

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IN ANY CASE, BEGINNING IN 1978 PRICE RISES ARE
BOUND TO ACCELERATE SOMEWHAT, EVEN IF FOOD PRICES
REMAIN RELATIVELY STABLE -- EVEN THOUGH THE PRICE
OF MILK WAS RAISED BY AN AVERAGE OF 2.1 PERCENT
EFFECTIVE FEBRUARY 1 TO TAKE ACCOUNT OF THE REVAL-
UATION OF THE "GREEN FRANC".

ALSO, IN ANY CASE, THE JANUARY INCREASES WILL HAVE
TO REFLECT THE LEGAL RENT INCREASES WHICH BECAME
EFFECTIVE DURING THE MONTH. BUT THE GOF'S EFFORT
TO RESTRAIN THE CPI'S RISE WAS AGAIN EVIDENCED BY
THE FACT THAT PART OF THE SCHEDULED FEBRUARY GASOLINE
PRICE RISE IS TO BE ABSORBED BY THE PETROLEUM
COMPANIES (SEE SEPARATE ITEM).

ANOTHER PRICE INCREASE OF 5.5 PERCENT EFFECTIVE
FEBRUARY 1 CONCERNS ALL EXTRA-URBAN BUS TRANSPORTA-
TION, INCLUDING THAT OPERATED BY THE NATIONAL
RAILROAD SYSTEM. INTRA-URBAN PUBLIC TRANSPORTATION
IS SCHEDULED TO RISE BY 9 PERCENT IN 1978, BUT
NOT BEFORE JULY 1.

3. INCREASE IN PRICE OF PETROLEUM PRODUCTS

EFFECTIVE FEBRUARY 1 THE PRICE OF MOTOR GASOLINE
WILL BE INCREASED BY ABOUT 2 PERCENT; THE PRICE OF
GAS-OIL, BY 1.4 PERCENT; THE PRICE OF DOMESTIC FUEL
OIL WILL REMAIN UNCHANGED. THIS INCREASE, WHICH IS
A TAX INCREASE, WAS INCLUDED IN THE 1978 FINANCE
LAW, WHICH PROVIDED FOR ADDITIONAL GOVERNMENT
RECEIPTS FROM INCREASED PETROLEUM TAXATION. THE
PRESENT INCREASE WILL GIVE THE TREASURY F 1.3 BILLION
IN ADDITION TO F 0.7 MILLION TO BE PAID DIRECTLY BY
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THE PETROLEUM COMPANIES AS A SUPPLEMENTARY TAX.
THUS, THE PART OF TAXES INCLUDED IN THE PRICE OF
MOTOR-GASOLINE PAID BY THE CONSUMER WILL RISE
FROM ABOUT 60 PERCENT TO ABOUT 62 PERCENT.
THIS INCREASE WILL BE MODERATED TO SOME EXTENT
BY THE RECENT DECLINE IN THE VALUE OF THE U.S.

DOLLAR. AS THE TOTAL FROM INCREASED PETROLEUM RECEIPTS IN 1978 WAS SCHEDULED TO REACH 5 TO 6 BILLION FRANCS, AN ADDITIONAL INCREASE OF ABOUT 7 TO 8 PERCENT IN THE PRICE OF GASOLINE IS SCHEDULED TO BECOME EFFECTIVE JUNE 1.

4. U.S. SHARE IN FRENCH IMPORTS DROPS WHILE FRENCH EXPORTS TO THE U.S. RISE

FINAL RESULTS OF FRENCH EXTERNAL TRADE IN 1977 SHOW THAT FRANCE'S TRADE GAP WITH THE U.S. --AN ARGUMENT FREQUENTLY ADVANCED BY FRENCH NEGOTIATORS-- IS NARROWING.

BILLIONS OF FRANCS

	1977	1976	1975
TOTAL FRENCH IMPORTS	346.4	308.1	232.4
IMPORTS FROM U.S.	24.0	22.6	17.5
PERCENT OF TOTAL	6.9	7.3	7.5
TOTAL FRENCH EXPORTS	312.1	266.8	223.9
EXPORTS TO U.S.	16.0	12.1	8.8
PERCENT OF TOTAL	5.1	4.5	3.9

IN DECEMBER ALONE THE U.S.SHARE OF FRENCH IMPORTS DECLINED TO 6.6 PERCENT WHILE THE PERCENTAGE OF FRENCH EXPORTS GOING TO THE U.S. ROSE TO 5.7 PERCENT.

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5. IN ITS LATEST QUARTERLY SURVEY, INSEE FORECASTS A "MODERATE RECOVERY" IN FIRST HALF OF 1978. HOUSEHOLD CONSUMPTION WOULD INCREASE BY ABOUT 1 PERCENT PER QUARTER, WITH CONSUMER DURABLES--IN PARTICULAR, AUTO-MOBILES--SHOWING A RECOVERY IN DEMAND.

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PRICES WOULD RISE MORE SLOWLY THAN IN 1977;
INDUSTRIAL PRODUCTION WOULD INCREASE BY 3 PERCENT
DURING THE FIRST SIX MONTHS OF 1978, WITH FOREIGN
DEMAND CONTINUING TO RISE SLOWLY. HOWEVER, THIS
MODEST RATE OF EXPANSION IS INSUFFICIENT TO
STABILIZE THE LEVEL OF UNEMPLOYMENT ONCE THE
SPECIAL MEASURES NOW IN EFFECT RUN OUT, UNLESS
NEW MEASURES ARE ADOPTED IN TIME TO ENCOURAGE
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EMPLOYMENT.

THESE FINDINGS WERE FOLLOWED BY THE REGULAR MONTHLY
POLL OF BUSINESS LEADERS CONDUCTED IN JANUARY WHICH
CONCLUDED THAT:

--INDUSTRIAL PRODUCTION DECLINED IN DECEMBER.
ORDER BOOKS HAVE CONTINUED AT ABOUT THE SAME LEVEL
SINCE OCTOBER WHICH, THOUGH AT A RELATIVELY LOW
LEVEL, IS ABOVE THE PREVIOUS PERIOD. HOWEVER,

DEMAND AS PERCEIVED BY THOSE ENTERPRISES WHICH DO NOT KEEP ACCURATE ACCOUNTS OF ORDER BACK-LOGS (ABOUT 1/4TH OF TOTAL) CONTINUED TO BE INSUFFICIENT.

--FOREIGN DEMAND IMPROVED FOR THE SECOND CONSECUTIVE MONTH. AT THE SAME TIME, INVENTORIES OF MANUFACTURED GOODS, WHICH PREVIOUSLY HAD BEEN TOO LARGE, HAVE NOW BEEN REDUCED; THUS, THE LOW LEVEL OF PRODUCTION CANNOT ALWAYS MEET DEMAND. AS A CONSEQUENCE, IN SPITE OF THE GENERALLY MEDIOCRE BUSINESS CLIMATE, THE PRODUCTION OUTLOOK IMPROVED IN JANUARY; AND, FOR THE FIRST TIME IN ONE YEAR, AN INCREASE IN ACTIVITY IS EXPECTED.

PRICE RISES ARE EXPECTED TO ACCELERATE SOMEWHAT IN THE COMING MONTHS.

6. THE DOMESTIC MARKET HAS BECOME MORE DIFFICULT FOR THE PLACEMENT OF PUBLIC BOND ISSUES. IN JANUARY ONLY 2.8 BILLION FRANCS WERE ISSUED, AS COMPARED WITH 4 BILLION IN JANUARY 1977. BANKS ARE SAID TO HAVE DIFFICULTIES PLACING THE CHARBONNAGES DE FRANCE BONDS PUT ON THE MARKET ON JANUARY 30, 1978. AT THE SAME TIME QUOTATIONS FOR PUBLIC BONDS ON THE BOURSE HAVE DROPPED

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SOMEWHAT SO THAT AVERAGE YIELDS ROSE TO 11.28 PERCENT AT THE END OF JANUARY FROM 11.10 AT THE END OF DECEMBER AND 10.66 ONE YEAR AGO.

7. LONG-TERM EXTERNAL BORROWING

THE FOLLOWING LONG-TERM EXTERNAL BORROWINGS WERE NOTED IN THE PRESS DURING THE REPORTING PERIOD:

--SNCF (NATIONAL RAILROAD) \$45 MILLION, 8-1/4 PERCENT GUARANTEED NOTES DUE 1984.

--ELECTRICITE DE FRANCE, \$500 MILLION, 8 YEAR LOAN.

--GROUPEMENT DE L'INDUSTRIE SIDERURGIQUE, \$35 MILLION, 1977 EXTENDABLE NOTES DUE 1980--82.

--SOCIETES DE DEVELOPMENT REGIONAL, DM 100 MILLION, 6-1/4 PERCENT DEUTSCHEMARK BEARER BONDS OF 1977-1992.

--SOCIETE NATIONALE ELF AQUITAINE, \$50 MILLION, FLOATING

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RATE REVOLVING CREDIT FACILITY.

--CREDIT NATIONAL, \$50 MILLION, 5 YEAR LOAN.

TIMING OF THE DRAWDOWN OF THESE BORROWINGS REPORTEDLY
IS FOR MARCH 1978, WHICH INDICATES A DESIRE BY THE
AUTHORITIES FOR A SUBSTANTIAL INFLOW OF CAPITAL
DURING THE ELECTION PERIOD.

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10. OTHER REPORTS SUBMITTED DURING THE PERIOD

TELEGRAMS

PARIS

1748 INSEE ESTIMATE AND FORECAST OF NATIONAL INCOME

ACCOUNTS

2365 EXPORT CREDIT CONSENSUS NEGOTIATIONS

4809 CARIBBEAN COORDINATING GROUP

4420 CERP 1208 VALUE OF TRADE IN MANUFACTURES

2735 ELECTIONS 1978: FOUR SCENARIOS FOR THE

FRENCH ECONOMY

2793 SHORT-TERM CAPITAL INFLOW

AIRGRAMS

PARIS

A-17 FRENCH FOREIGN EXCHANGE HOLDINGS

A-26 FRENCH FOREIGN EXCHANGE HOLDINGS

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